

VZCZCXYZ0018
RR RUEHWEB

DE RUEHVB #0826 3391516
ZNR UUUUU ZZH
R 041516Z DEC 08
FM AMEMBASSY ZAGREB
TO RUEHC/SECSTATE WASHDC 8819
INFO RUEHZL/EUROPEAN POLITICAL COLLECTIVE
RUEATRS/TREASURY WASHDC

UNCLAS ZAGREB 000826

TREASURY FOR OFFICE OF INTERNATIONAL AFFAIRS
DEPARTMENT FOR EUR/ERA AND EUR/SCE

SIPDIS

E.O. 12958: N/A

TAGS: [ECON](#) [EFIN](#) [HR](#)

SUBJECT: GOC STRUGGLES TO COMPLETE 2009 BUDGET AS UNIONS REFUSE TO
MODERATE WAGE DEMANDS

¶1. SUMMARY: The Croatian government's efforts to control expenditures by reaching an agreement on a reduced 2009 pay increase for approximately 240,000 state employees reached a standstill during the latest round of negotiations with employee unions on December 2. The unions rejected the government offer and demanded that the collective agreement signed in 2006, which guarantees an annual 6-percent increase, be respected. Without an agreement, the GOC now faces the difficult decision of whether to default on the 2006 agreement or find other areas for cuts in order to balance the budget. Either avenue will be extremely unpopular, but with sources of deficit financing severely constrained, the government will have no choice. END SUMMARY.

¶2. On December 2, at the last of several negotiating sessions over the past two weeks, the GOC and the public-sector unions failed to reach agreement on wage increases for 2009. The unions demand that the government hold up its end of a collective agreement signed in 2006, which stipulated a 6-percent raise for 2009. The government contends that the collective agreement was made before the onset of the current financial crisis and that the situation demands flexibility from unions. As a compromise, the government proposed a 2-percent raise in April, a 1.5-percent raise in October, and for employees in the science and academic sectors, an extra 2-percent raise in August. The unions rejected this offer, saying the government has not convinced them it does not have the 1.5 billion HRK (\$273 million) needed for the full 6-percent raises. Deputy Prime Minister Jadranka Kosor responded that the government does not have the necessary funds and may simply have to default on the 2006 collective agreement. According to one press report, however, defaulting on the agreement could open the government up to thousands of private lawsuits by employees. The government will decide on the matter on December 5, with the goal of sending the proposed 2009 budget to parliament the following week.

¶3. The unions have threatened to strike if the pay increase demands are not resolved, though the public has not shown strong support for their demands. A member of PM Sanader's newly established Economic Council commented publicly that the government's proposal of a 3.5-percent raise would match inflation growth and thus put state employees in a better position than many in the private sector. One columnist for a prominent daily wrote that the unions, with their "unrealistic" demand of 6 percent, had shown no desire to compromise. He predicted the "war" ahead for the unions would be not with the government but with the rest of Croatia's workforce, which would foot the cost of any raise while facing cut-backs of its own.

¶4. COMMENT: With his top economic advisors all agreeing the government must avoid a budget deficit for 2009, Sanader faces a difficult decision this week in choosing the final cuts. He has publicly shown reluctance to cut spending on major infrastructure projects, saying projects such as the Peljesac Bridge (circumventing the Bosnian coastal corridor) are "a matter of national pride." But with over 14 billion HRK (\$2.5 billion) already cut from the budgets of ministries and other government programs, infrastructure cuts and reduced wage increases remain the only options apparently still

under consideration. END COMMENT.

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